

STATE ADMINISTRATION

LEGISLATIVE / EXECUTIVE

This section includes the budgets of constitutional officers, the Legislature, and agency secretaries. Departments with reductions or augmentations other than normal operating expenses or elimination of vacant positions are highlighted.

0840 State Controller

The State Controller is the Chief Financial Officer of the state. The primary function of the State Controller is to provide sound fiscal control over both receipts and disbursements of public funds; to report periodically on the financial operations and condition of both state and local government; to make certain that money due the state is collected through fair, equitable and effective tax administration; to provide fiscal guidance to local governments; to serve as a member of numerous policy-making state boards and commissions; and to administer the Unclaimed Property and Property Tax Postponement Programs. The budget proposes total expenditures of \$104.8 million, of which \$68.5 million is from the General Fund.

Issues

Replacement of Apportionment Payment System. The budget proposes an augmentation of \$579,000 special funds to replace the Apportionment Payment System used to make payments to local government agencies. According to the Controller's Office, the present apportionment system has reached the point where it can no longer be effectively supported. The proposal indicates the Controller will withhold an administrative fee from a number of special funds over a three-year period; and after this period an unknown lesser amount will be withheld for the purpose of maintaining the system.

Reduction in Medi-Cal Audits. The budget proposes a reduction of \$930,000 (\$465,000 General Fund and \$465,000 reimbursements) and 11.5 positions due to the discontinuation of Medi-Cal audits at the State Controller. The budget proposes, beginning in 2004-05, that this function be consolidated at the Department of Health Services. Given the Controller's statewide fiduciary responsibilities, the Legislature may wish to consider if this is an advisable shift of duties.

0860 State Board of Equalization

The State Board of Equalization (BOE), the Franchise Tax Board (FTB), and the Employment Development Department are the state's major tax collection agencies. BOE collects state and local sales and use taxes and a variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, alcoholic beverages and cigarettes, as well as others. BOE also assesses utility property for local property tax purposes, oversees the administration of the local property tax by county assessors, and serves as the appellate body to hear specified tax

appeals, including FTB decisions under the personal income tax and bank and corporation tax laws. The budget includes \$326.8 million, which is less than a 1 percent decline from the current-year level.

Issues

Administration of the Cigarette and Tobacco Products Licensing Program. The Administration proposes to augment the budget to implement the Cigarette and Tobacco Products Licensing program pursuant to Chapter 890, Statutes of 2003. The program is intended to improve voluntary compliance through reduced evasion via smuggling and counterfeiting. The program authorizes the BOE to issue licenses, suspend or revoke licenses, issue billings for fines and penalties for violations of the law, and enforce provisions through inspection and audits. The budget includes \$5.6 million, special funds, in the current year and \$8.1 million, special funds, in the budget year for implementation and ongoing costs.

STATE AND CONSUMER SERVICES AGENCY

This section includes the budgets of the Science Center, the Department of Consumer Affairs (including all bureaus, boards programs and divisions), Department of Fair Employment and Housing, Franchise Tax Board, Department of General Services, State Personnel Board, Public Employees' Retirement System, and State Teachers' Retirement System. Departments with reductions or augmentations other than normal operating expenses or elimination of vacant positions are highlighted.

1100 California Science Center

The California Science Center is an educational, scientific and technological center administered by a nine-member board of directors appointed by the Governor. It is located in Exposition Park, a 160-acre tract just south of the central part of Los Angeles, which is owned by the state in the name of the Science Center. In a number of state-owned buildings, the Science Center presents a series of exhibits and conducts associated educational programs focusing on scientific and technological developments of the state. In addition, the Science Center, through the Park Manager, is responsible for maintenance of the park, public safety, and parking facilities.

The Governor proposes total expenditures of \$20 million (\$14.3 million General Fund) for the Science Center. The budget also contains \$1.4 million General Fund and \$981,000 reimbursements to open the Science Center School and Center for Science Learning. The school will serve 900 K–5 students and the center will promote science learning for children, parents and educators.

1110 Department of Consumer Affairs

The Department of Consumer Affairs is responsible for promoting consumer protection while supporting a fair and competitive marketplace. The department serves as an umbrella for 18 semi-autonomous boards and 11 bureaus and programs that regulate over 180 professions. The

2004-05 budget for Consumer Affairs and its associated boards, bureaus, and commissions totals \$330.9 million.

1700 Department of Fair Employment and Housing

The objective of the Department of Fair Employment and Housing (DFEH) is to protect the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence. The Governor proposes total expenditures at \$18.7 million (\$13.5 million GF), a 6 percent decrease from the current year.

1730 Franchise Tax Board

The Franchise Tax Board (FTB) administers the Personal Income Tax and the Bank and Corporation Tax Laws, and the Senior Homeowners and Renters' Assistance program. In addition, FTB provides processing services through contracts with other governmental agencies and performs audits and field investigations of campaign statements and lobbyist reports authorized by the Political Reform Act. The FTB is funded at \$560.5 million, of which \$441.9 million is General Fund. The total budget increase is \$27.9 million, or 5.2 percent more than budgeted in the current year. The General Fund portion of the proposed increase is approximately \$9.1 million.

Issues

Integrated Non-Filer Compliance (INC). The INC program pursues taxpayers that do not file returns, but have tax liabilities over \$200. These individuals have income sufficient to pay taxes but have not filed a tax return. The budget proposes an increase of \$1.8 million and 28 positions to manually review 268,000 personal income tax non-filer accounts. According to the Administration, the proposal is estimated to increase revenues by \$12 million in 2004-05 and \$43 million in 2005-06.

California Child Support Automation System (CCSAS). The objective of the Child Support Automation Program is to procure, develop, implement, and maintain the new CCSAS in order to locate noncustodial parents, establish and enforce child support obligations, collect and distribute support payments, and comply with federal distribution requirements. The budget proposes \$12.5 million General Fund and \$21.3 million in additional reimbursements to continue development of the CCSAS system. According to the Administration, this augmentation is primarily for business-partner payments.

Political Reform Audit Program. The budget proposes to change the funding for the Political Reform Audit Program. Currently, this program is funded from the General Fund. The budget proposes to establish a new special fund (the Political Reform Audit Fund) to cover expenses of compliance audits. This proposal would impose a fee on candidates filing for elected public offices, lobbyists, lobbying firms, lobbyist employers, and certain political committees for deposit in the newly established fund. The new fee is proposed to generate \$1.42 million to pay for the audit costs. A similar proposal was rejected by the Legislature last year.

1760 Department of General Services

The Department of General Services (DGS) provides management review and support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state's office space and properties. It is also responsible for the procurement of materials, data processing services, communication, transportation, printing, and security.

The budget for DGS is proposed at \$875.9 million, of which \$3.0 million is General Fund. The total budget is about \$21 million, or 2.5 percent greater than in the current year. The General Fund support is reduced from \$5 million in the current year to \$3.0 million in the budget year. In 2002-03, General Fund support was approximately \$17 million.

Issue

Emergency Telephone Services. The department is requesting multi-year augmentations to its local assistance appropriation from the State Emergency Telephone Account Fund to provide enhanced wireless services to the 911 Emergency Telephone Network. The request is for \$23.4 million in 2004-05 and \$4.35 million for 2005-06. The department was previously budgeted for this operation but due to technological and regulatory issues, implementation of wireless services has been delayed while the overall cost of the proposal has remained consistent.

1920 State Teachers' Retirement System (STRS)

The budget proposes to increase by \$21 million General Fund for Benefits Funding as a result of an increase in teacher payroll. In addition, the budget proposes to increase funding for the Supplemental Benefit Maintenance Account in the STRS Fund by \$526.1 million, of which \$26.1 million is a result of an increase in teacher payroll and \$500 million General Fund reflects the restoration of a like, one-time reduction in 2003-04.

BUSINESS, TRANSPORTATION, & HOUSING AGENCY

This section includes the budgets of the departments of Alcoholic Beverage Control, Financial Institutions, Corporations, Housing and Community Development, Office of Real Estate Appraisers, Real Estate, Transportation Commission, and Transportation. Departments with reductions or augmentations other than normal operating expenses or elimination of vacant positions are highlighted.

2180 Department of Corporations

The Department of Corporations administers and enforces state laws regulating securities, franchise investment, lenders, and fiduciaries. The budget is proposed at \$28.9 million (State Corporations Fund). The Governor also proposes an increase of \$1.2 million and 13.6 positions to address workload resulting from Chapter 241, Statutes of 2003 (SB1, Speier), the California

Financial Information Privacy Act, as it relates to the regulation of Broker Dealers and Investment Advisers.

2240 Department of Housing and Community Development

A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The department administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families and other special needs groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

The Governor proposes \$613.5 million (\$14.2 million General Fund) in total expenditures for the department. Other proposals included in the Governor's Budget are:

- \$140,000 General Fund from the Office of Migrant Services Program to reflect the partial year closure of one state-owned migrant center;
- \$5 million in one-time savings from the disencumbrance of previous funded projects to be transferred to the General Fund;
- \$3.9 million in unused funds from the California Housing Finance Agency's California Homeowners Downpayment Assistance Program to the General Fund.

GENERAL GOVERNMENT

California Performance Review

The Administration proposes to embark on a "California Performance Review" to identify successful practices in delivering state services to Californians. This process will draw upon earlier reviews of state government with the intention to develop tangible reforms, rather than simple reorganization ("moving boxes around").

To initiate the review, a team of professionals drawn from around the nation will train 125 to 150 senior career managers on how to conduct a review. The review has four set outcomes: (1) executive branch reorganization to facilitate more efficient, responsive, and transparent government, (2) performance assessments and budgeting of departments and programs, (3) acquisition program reforms based on the practices of the private sector, federal government, and other states, and (4) government reorganization and outsourcing.

Issue

Contracting Out/Outsourcing. Government reorganization and outsourcing is a particularly significant change in statewide policy. Described as a "customer-focused transformation of government operations," this proposal would reorganize and streamline state operations, as well as facilitate contracting out services to the private sector. Many financial, human resource, and

procurement management systems would be replaced by newer systems with statewide interoperability. This proposal will require a constitutional amendment to permit greater outsourcing and competition for providing previously state-run services.

8885 Commission on State Mandates

The Commission on State Mandates is a quasi-judicial body that makes the initial determination of state mandated costs. Support costs for the department are proposed at \$1.2 million in 2004-05.

Issues

State Mandated Local Cost Reimbursements. The 2003-04 budget deferred payments to local governments for state-mandated local programs. The mandates are still in effect and the Constitution requires the state to reimburse local agencies for these costs including interest on the deferred amount.

The 2004-05 budget proposes to repeal, defer, and suspend various local reimbursement mandates and associated payments. The Legislative Analyst estimates that the deferral of these payments will total approximately \$1 billion by the end of the 2004-05 fiscal year. If these mandates are not suspended, the costs will continue to be a state obligation.

9100 Tax Relief

California offers a variety of tax relief programs by appropriating funds through a reduction in rates or nonrefundable tax credits. The state also provides the following tax relief through the appropriation of funds for payments to individuals or reimbursement of local agencies. Tax relief proposed in 2004-05 totals \$4.7 billion, or 40.6 percent more than the amount provided in 2003-04. This increase is due to the elimination of Substandard Housing Subventions and the general-purpose backfill to local governments of the Vehicle License Fee (VLF) offsets.

Summary of Expenditures				
(dollars in thousands)	2003-04	2004-05	\$ Change	% Change
Senior Citizens' Property Tax Deferral	\$11,900	\$11,900	\$0	0.0
Senior Citizens' Property Tax Assistance	37,036	37,036	0	0.0
Senior Citizen Renters' Tax Assistance	146,355	146,355	0	0.0
Homeowners' Property Tax Relief	427,600	433,200	5,600	1.3
Open Space Subventions	39,420	39,750	330	0.8
Substandard Housing	44	0	-44	-100.0
Vehicle License Fee Offset	2,702,542	4,062,075	1,359,533	50.3
State-Mandated Local Programs	3	3	0	0.0
Total	\$3,364,900	\$4,730,319	\$1,365,419	40.6

Issues

Vehicle License Fee Subventions to Cities and Counties. The budget proposes using the General Fund to backfill payments associated with the reduction in the VLF. The cost of the backfill is approximately \$2.7 billion in 2003-04 (with an additional \$1.3 billion payable to local governments in 2006) and \$4.1 billion in 2004-05.

Substandard Housing Subventions. Chapter 238, Statutes of 1974, provides that if a taxpayer derived rental income from substandard housing, no deduction for interest, taxes, depreciation or amortization paid in conjunction with substandard housing would be allowed under tax law. Subsequent legislation (Chapter 1286, Statutes of 1978) provides that revenue derived from this provision shall be allocated to the cities and counties where the substandard housing is located and used for the enforcement of housing codes and rehabilitation of housing. The budget proposes to permanently eliminate this allocation beginning in 2004-05.

9210 Local Government

The Local Government Finance item proposes \$260 million in funding for local agencies. The state provides other assistance to local governments, primarily counties, through other direct programs contained in other items in the budget. For example, Health and Human Services has numerous programs where the state and counties jointly provide funding for services. State funding is also included in Public Safety for such issues as local crime labs and suppression of high intensity drug trafficking areas.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	\$ Change	% Change
Reimbursement for Booking Fees	\$38,220	\$0	-\$38,220	-100.0
Property Tax Loan Program	60,000	60,000	0	0.0
Citizens' Option for Public Safety (COPS)	200,000	200,000	0	0.0
Transfer to Board of Corrections for Local Assistance	-275	0	-275	100.0
State-Mandated Local Programs	3	5	2	66.0
Special Subvention to Counties Without Incorporated Cities	147	0	-147	-100.0
Redevelopment Agencies	700	0	-700	-100.0
Total	\$298,795	\$260,005	-\$38,790	-12.9

Issues

Booking Fees. The budget proposes to eliminate \$38.2 million in General Fund for booking fee reimbursements in the budget year. This proposal was made by the Administration last year and subsequently rejected by the Legislature.

Educational Revenue Augmentation Fund (ERAF) Shift. In early 2003-04 local government revenues from vehicle license fees (VLFs) were reduced by \$1.3 billion. This reduction was due to the delay in implementing the increased fees when the VLF offset was eliminated on June 30, 2003. Chapter 231, Statutes of 2003 (AB 1768, Budget Committee) included a provision for this funding gap to be repaid by August 15, 2006.

The budget proposes to continue this \$1.3 billion funding reduction for local governments by increasing the amount of money transferred to K-14 schools through the Educational Revenue Augmentation Fund (ERAF) by \$1.3 billion. Beginning in 2004-2005, locals would contribute an additional \$1.3 billion of property tax revenues to the ERAF, for the specified purpose of reducing the state's Proposition 98 education commitment. This property tax shift would cause a 10 percent decrease in local government revenues.

9800 Employee Compensation

The budget proposes \$874.5 million (\$464.2 million General Fund) to fund compensation and benefit adjustments for represented employees in the 16 collective bargaining units that have a Memorandum of Understanding ratified by the Legislature, and as approved by Department of Personnel Administration for excluded employees.

Issue

Pension Reform. The budget proposes three major changes to state employee compensation practices that would generate an estimated \$950 million in savings in 2004-05 and \$4.6 billion over the next 20 years.

The first proposal is to replace the current year \$1.9 billion pension obligation bond -- assumed in the 2003-04 budget -- with a bond of approximately one-half that amount. As result, the current GF commitment to this pension obligation bond would be reduced by half. The new bond would still cover a portion of the state's 2004-05 retirement contributions, for estimated GF savings of \$929 million.

Second, the budget proposes to increase the percentage of an individual's salary that state employees contribute to their retirement funds, resulting in an estimated GF savings of approximately \$14 million. The Governor proposes to increase the individual employee's contribution towards their retirement by 1 percentage point. (For example, state employees currently contributing 5 percent of their income would contribute 6 percent.) Implementation of this proposal is contingent upon negotiated concessions with the public employee unions.

Third, the budget proposes to decrease the compensation package for new employees to the level in place before the enactment of Chapter 555, Statutes of 1999 (SB 400, Ortiz), for an estimated General Fund savings of \$6 million in 2004-05.